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COMPT 76-0667

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File *Approp Budget*DD/A Registry
76-3089

10 JUN 1976

MEMORANDUM FOR: Mr. Charles G. Haynes, Staff Member
Surveys and Investigations Staff
House of Representatives Committee on Appropriations

SUBJECT: Questions About the Contingency Reserve

REFERENCE: Your Memorandum of 27 May 1976

This responds to your request for answers to the questions posed in the referent memorandum. The following paragraphs answer the correspondingly numbered questions in your memorandum.

1. Standard pricing policy is set forth in Logistics Instruction (LI) 45-22, a copy of which was given to you on 11 May. Our policy on issues of excess Defense articles to a foreign country is set forth in LI 45-24, copy attached as Tab A. Headquarters Regulation [REDACTED] deals with issues of excess materiel to operating elements of the Agency without charge to Property Requisitioning Authority or, stated another way, at no cost. A copy of this regulation was given to you on 11 May. 25X1A

2. The issue of property to the [REDACTED] at one-third book value was a unique transaction. The rationale of our decision to do so is contained in a memorandum dated 25 October 1975 from the Director of Logistics to the Director of Central Intelligence, copy attached as Tab B. In no other instance has the Agency issued property at one-third value. 25X1C

3.a. The Agency mechanism for increasing an "approved program level" (in the instance case--as used in the context of your question--a level established by an approved Reserve release) is the same as that followed in obtaining the initial approval. We do not agree that the approved Reserve release funding level of [REDACTED] was changed by the Agency. 25X1A
A Reserve release is an authority to obligate funds in a specific amount for a specific purpose. It may or may not reflect the total resources necessary to conduct the program. Additional funds or resources that might not be covered by a Reserve release could include costs contained in the basic Agency program for which funds are appropriated by Congress as well as property or equipment deemed to be surplus and which could be provided without cost (i.e., by use of Unfunded Property Requisitioning Authority for items not requiring replacement). Such was the case with [REDACTED] where materiel with a book value of [REDACTED] was determined to be surplus (along with CEM 25X1A

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valued at [REDACTED] which, consistent with Agency policy at the time of issue, was treated as "no cost" materiel and not handled within the PRA system), and therefore was not charged against the Reserve release funding level of [REDACTED]. As you are aware, [REDACTED] of the approved amount subsequently was returned to the Contingency Reserve. Although we recognize that the question can be argued, we did not consider at the time that materiel surplus to our needs and made available without charge increased the approved program funding level. The materiel involved, had it not been provided to the project, would in due course have been disposed of using whatever means was most appropriate.

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3.b. Mr. [REDACTED] did not have the authority to authorize an increase in the [REDACTED] program funding level, nor did he do so. The Advice of Allotment which he issued on 1 June 1973 as Chief of the Budget Management Group, Office of the Comptroller, reflected a de facto change in the funding level from [REDACTED]. While the total shown on the Allotment Advice is [REDACTED] represented unfunded Property Requisitioning Authority for the surplus materiel involved, and was not considered to be a part of the basic funds authority provided through the Reserve release for the program. The Allotment Advices issued for [REDACTED] are summarized as follows:

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<u>Funding Authority</u>				
<u>Date</u>	<u>Funds</u>	<u>Property</u>	<u>Total</u>	<u>Surplus Property</u>
9 Jan 73				
16 Mar 73				
25X1A 3 Apr 73				
7 May 73				
1 Jun 73				

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As is apparent from the above summary, we do not agree that the basic funding authority of [REDACTED] was increased. It is only when the surplus materiel is included as a charge to the project funding level that one might argue that the approved [REDACTED] program level, as opposed to the funding level, was exceeded.

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3.c. The Agency policy for issue of (i.e., charge for) excess property is set forth in [REDACTED], a copy of which was provided to you on 11 May. Specifically, the policy provides that "Property determined by the Director of Logistics to be in excess of the Agency's needs may be issued without charge...." The key word here is "may" and we have made judgments concerning

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excess property provided in support of a program funded from the Reserve on a case-by-case basis. In the case of [REDACTED] property issued to the program and valued at [REDACTED] was determined to be surplus and the charge for this materiel withdrawn. With respect to the [REDACTED] program, consideration initially was given to providing materiel already categorized as surplus to the program without charge to the approved funding level. This would have been consistent with the treatment of surplus materiel provided to other programs funded through the Reserve (e.g., [REDACTED]). However, a determination was made that surplus materiel should not be provided without charge in the case of the [REDACTED] program, but neither should it be provided at inventory book value. After considering alternatives, which ranged from salvage value (which would have been difficult to determine) to proceeds derived from disposal (which would have been negligible in view of the limitations imposed on Government sale of the type of materiel involved) to a formula based on the Foreign Assistance Act (which did not apply, but which was considered to be an expression of the intent of Congress), we decided on the latter and charged the [REDACTED] program with the cost of materiel at one-third of its inventory value. It should be noted that much of the surplus materiel involved was not the type actually preferred for support of this activity, but was considered to be an acceptable substitute. If we had not issued the surplus materiel and had procured the exact type of materiel desired, the cost would not only have been greatly increased, but the surplus materiel actually provided would have remained on hand for later disposal with little or no benefit to either the Agency or the Government.

4. Although project accounts do not reflect a cost charge for property issued at no cost, property-in-use accountability is maintained until final disposition (unless nonexpendable property is issued and expended on a Certificate of Expenditure) regardless of whether the property was issued as a charge or issued at no cost. Property-in-use accountability is not maintained for expendable property except that all weapons are considered nonexpendable regardless of the unit cost. Accountability for property issued to a project is not maintained at Headquarters by individual project, but is maintained by installation; however, installations maintain accountability of nonexpendable property issued to individuals or projects by the use of a Consolidated Memorandum Receipt (a hand receipt signed by the individual or project case officer acknowledging responsibility for the property issued).

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Values are placed on the above categories as stated below:

(a) Property-In-Use, Headquarters: Item value at the fixed price carried in the Central Inventory at the time property is issued to property-in-use.

(b) Property-In-Use, Other: Value recorded in the property-in-use account is as of 31 December 1975 and is updated quarterly based upon reports from the activity.

(c) Property-In-Use, Type II Installations: Value recorded in property-in-use account is as of 30 April 1975 and is updated annually (see response to Question 8 below).

(d) Property In Hands of Contractors: Value recorded in property-in-use account is as of 30 June 1975 and is updated annually. This account is updated based upon information provided to the Procurement Management Staff/OL by industrial contractors in accordance with Armed Services Procurement Regulations.

8. The value of property-in-use is established on the basis of acquisition costs if purchased for direct issue, or the book value if issued from Agency stock. Book value, as discussed with you previously, is the value at which items are carried in the Central Inventory and is arrived at in accordance with LI 45-22. Property in use at Type II installations is revalued annually, on 30 April, in accordance with paragraph 4 of [REDACTED]

[REDACTED] Paragraph 4 states essentially that the total quantity of an item on hand will be valued using the unit price of the most recent acquisition. A copy of the Headquarters Handbook, [REDACTED]

[REDACTED] is attached for your information as Tab C.

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Because the accounting system for Type II property-in-use is necessarily a simple one, the pricing policy also is less involved than that used for the Central Inventory.

9. Property-in-use is not categorized by allocation as is the Central Inventory. Property-in-use records are maintained at Headquarters by (1) installation and (2) total dollar value of nonexpendable property located at the installation; however, each installation maintains stock record cards on which the material category is included. Allocations are used for management of the Central Inventory, i.e., to identify segments of inventory by type of material, technical cognizance, or special use. When material is issued from Central Inventory to a property-in-use account, responsibility for its management and control moves from the Office of Logistics to the accountable officer for that account. Arms and ammunition in property-in-use accounts are limited to handguns and ammunition for security and personal protection purposes and are not part of the contingency stock.

10. While our "scrubbing" of unliquidated "M" account obligations, initially established to cover procurement from and services provided by other Federal agencies—primarily Defense, took place during the spring of 1975, the final amount was not available for transfer to the Reserve until June 1975, less than 30 days before the end of the fiscal year. There was no compelling reason to expedite the transfer to the Reserve before the end of FY 1975 and no special effort was made to put this action ahead of the normal exigencies of closing the FY 1975 financial records of the Agency. Since the [REDACTED] was not returned to the Reserve until early in FY 1976, it of course was not reflected in the FY 1977 Congressional Budget in the opening Reserve balance for FY 1976. However, it was included as a part of the [REDACTED] estimated prior-year recoveries. The amount estimated to be available during the year [REDACTED] would not have been affected whether the [REDACTED] had been returned to the Reserve in June 1975, and thus included in the opening balance for FY 1976 or included in the anticipated recoveries for FY 1976 as was actually the case.

11. No. Director Colby had informed the House Committee on Appropriations of the matter in a written statement of 11 June 1975 coincident with his oral testimony before the Committee. The subject also was discussed further in our 23 June 1975 responses to Questions 7, 8, and 12 among the Committee's "Questions on the FY 1976 Budget" which we received on 11 June. In addition, as noted in your statement of this question, Mr. Snodgrass was advised of the status of the Reserve on September 19, 1975. (See also response to Question 12 below.)

12. In a letter dated October 22, 1966 to the Director, Bureau of the Budget concerning the Agency's 1967 appropriation, the Chairman of the House Appropriations Committee stated, "It is understood that the Agency will inform the Committees, within 48 hours after approval, of all withdrawals from the reserve." We have complied fully with this expression of the intent of Congress and have so notified our Committees following approval by OMB of all requests for Reserve releases. There has never been a comparable requirement to notify

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the Committees of additions to the Reserve as they occur, nor has there been an expression of interest by the Committees in being advised of actions involving individual returns to the Reserve. Both actual and estimated additions to the Reserve, of course, are included in the Agency's annual budget submissions to Congress. On our own initiative in 1973 we began notifying the Committees of additions to the Reserve when they occurred in conjunction with a request for withdrawal, but this was not responsive to a Congressional or OMB request. Agency procedures do not otherwise require or provide for notification to Congress of additions to the Reserve as they occur.

13. The General Accounting Office has not requested the Agency to submit its accounting system for approval. Should such a request be made, the Director of Finance and I would recommend to the Director that the Agency should comply, assuming agreement on appropriate safeguards to protect sources and methods, e.g., true names of agents in the pay system.

If further information or elaboration on any of the answers provided above is desired, please let me know. If supplemental information is needed, I suggest that discussions be arranged with the principal officers concerned with the particular issue involved.

/s/ John D. Iams

JOHN D. IAMS
Comptroller

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Attachments:

Tabs A through C

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